



**Auditor of State
Betty Montgomery**

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANT'S REPORT

Salem City School District
Columbiana County
1226 East State Street
Salem, OH 44460

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Salem City School District, Columbiana County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Salem City School District, Columbiana County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

April 11, 2005

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The management's discussion and analysis of the Salem City School District's ("the District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities decreased \$2,769,047 represents a 41.31% decrease from 2003.
- General revenues accounted for \$17,047,071 in revenue or 83.18% of all revenues. Program specific revenues in the form of charges for services and sales and grants and contributions accounted for \$3,446,899 or 16.82% of total revenues of \$20,493,970.
- The District had \$23,263,017 in expenses related to governmental activities; only \$3,446,899 of these expenses was offset by program specific charges for services or grants and contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$17,047,071 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and permanent improvement fund. The general fund had \$18,831,093 in revenues and other financing sources and \$21,070,488 in expenditures and other financing uses. During fiscal year 2004, the general fund's fund balance decreased \$2,239,395 from \$224,122 to \$(2,015,273).
- The permanent improvement fund had \$2,281,233 in revenues and other financing sources and \$724,420 in expenditures. During fiscal 2004, the permanent improvement fund's fund balance increased \$1,556,813 from \$566,420 to \$2,123,233, due to a transfer from the general fund.

Using the Basic Financial Statements (BFS)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund and permanent improvement fund are by far the most significant funds, and the only governmental funds reported as major funds.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance, pupil transportation, operation of non-instructional services, extracurricular activities, food service operations, and interest and fiscal charges.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and permanent improvement fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements.

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in a separate Statements of Fiduciary Net Assets on page 23. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. A comparative analysis for government-wide financial statements using the full accrual basis of accounting is presented below.

	Governmental Activities 2004	Governmental Activities 2003
<u>Assets</u>		
Current and other assets	\$ 12,961,974	\$ 13,965,077
Capital assets	<u>4,982,302</u>	<u>4,907,668</u>
Total assets	<u>17,944,276</u>	<u>18,872,745</u>
<u>Liabilities</u>		
Current liabilities	12,049,362	10,375,020
Long-term liabilities	<u>1,960,565</u>	<u>1,794,329</u>
Total liabilities	<u>14,009,927</u>	<u>12,169,349</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	4,956,108	4,907,668
Restricted	2,462,232	2,333,882
Unrestricted	<u>(3,483,991)</u>	<u>(538,154)</u>
Total net assets	<u>\$ 3,934,349</u>	<u>\$ 6,703,396</u>

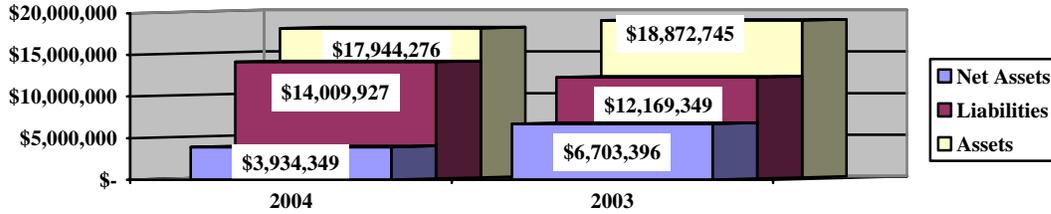
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$3,934,349. A portion of the District's net assets, \$2,462,232, represents resources that are subject to external restriction on how they may be used.

At fiscal year-end, capital assets represented 27.77% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$4,956,108. These capital assets are used to provide services to the students and are not available for future spending.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Governmental Activities



The table below shows the change in net assets for fiscal years 2004 and 2003.

Change in Net Assets

	Governmental Activities 2004	Governmental Activities 2003
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,262,445	\$ 926,967
Operating grants and contributions	2,184,454	1,708,174
General revenues:		
Property taxes	9,036,835	9,132,772
Grants and entitlements	7,683,945	7,962,675
Investment earnings	55,731	111,180
Other	270,560	268,664
Total revenues	<u>20,493,970</u>	<u>20,110,432</u>

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Change in Net Assets

	<u>Governmental Activities 2004</u>	<u>Governmental Activities 2003</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	9,607,639	9,504,328
Special	2,273,726	2,342,245
Vocational	469,149	454,154
Adult/Continuing	456,890	-
Other	706,598	568,943
Support services:		
Pupil	982,455	1,035,373
Instructional staff	961,653	1,034,289
Board of education	35,746	28,778
Administration	2,011,095	2,029,989
Fiscal	667,989	721,106
Business	10,374	39,613
Operations and maintenance	2,209,203	2,375,931
Pupil transportation	759,348	477,704
Central	460,375	84,725
Operations of non-instructional services	233,485	76,094
Extracurricular activities	748,927	698,798
Food service operations	666,131	673,265
Interest and fiscal charges	<u>2,234</u>	<u>8,615</u>
Total expenses	<u>23,263,017</u>	<u>22,153,950</u>
Decrease in net assets	<u>\$ (2,769,047)</u>	<u>\$ (2,043,518)</u>

Governmental Activities

Net assets of the District's governmental activities decreased by \$2,769,047. Total governmental expenses of \$23,263,017 were more than program revenues of \$3,446,899 and general revenues of \$17,047,071. Program revenues supported 14.82% of the total governmental expenses.

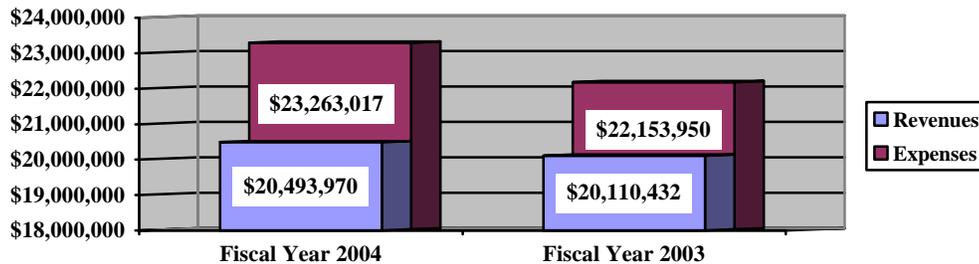
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 81.59% of total governmental revenue.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The graph below presents the District's governmental activities revenue and expenses for fiscal years 2004 and 2003.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and operating grants and contributions offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

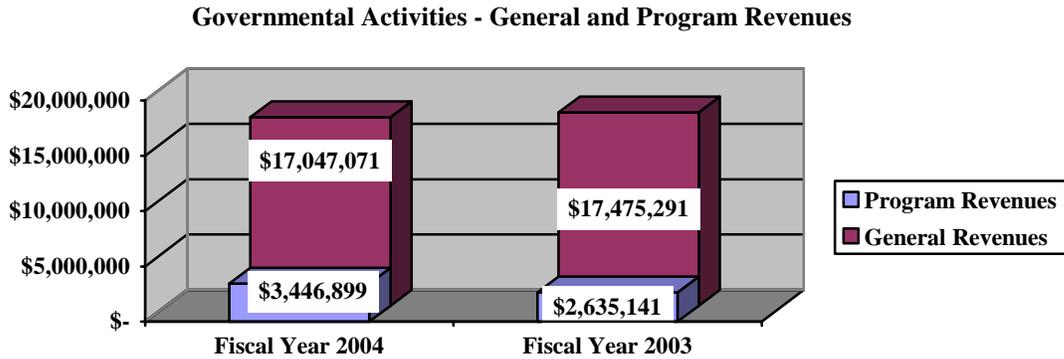
	Governmental Activities			
	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Program expenses				
Instruction:				
Regular	\$ 9,607,639	\$ 8,846,429	\$ 9,504,328	\$ 9,203,326
Special	2,273,726	1,275,934	2,342,245	1,553,151
Vocational	469,149	469,149	454,154	454,154
Adult/Continuing	456,890	292,576	-	-
Other	706,598	414,986	568,943	332,524
Support services:				
Pupil	982,455	873,744	1,035,373	873,186
Instructional staff	961,653	922,040	1,034,289	976,061
Board of education	35,746	35,746	28,778	28,778
Administration	2,011,095	1,955,148	2,029,989	1,848,340
Fiscal	667,989	667,989	721,106	721,106
Business	10,374	10,374	39,613	39,613
Operations and maintenance	2,209,203	2,203,827	2,375,931	2,375,931
Pupil transportation	759,348	759,348	477,704	477,704
Central	460,375	438,537	84,725	75,408
Operations of non-instructional services	233,485	131,673	76,094	(15,911)
Extracurricular activities	748,927	449,904	698,798	473,004
Food service operations	666,131	66,480	673,265	93,819
Interest and fiscal charges	2,234	2,234	8,615	8,615
Total expenses	<u>\$ 23,263,017</u>	<u>\$ 19,816,118</u>	<u>\$ 22,153,950</u>	<u>\$ 19,518,809</u>

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The dependence upon tax and other general revenues for governmental activities is apparent, 83.61% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 85.18%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2004 and 2003.



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$317,560, which is lower than last year's total of \$2,764,162. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance <u>June 30, 2004</u>	Fund Balance <u>June 30, 2003</u>	Increase <u>(Decrease)</u>
General	\$ (2,015,273)	\$ 224,122	\$ (2,239,395)
Permanent Improvement	2,123,233	566,420	1,556,813
Other Governmental	<u>209,600</u>	<u>1,973,620</u>	<u>(1,764,020)</u>
Total	<u>\$ 317,560</u>	<u>\$ 2,764,162</u>	<u>\$ (2,446,602)</u>

General Fund

The District's general fund balance decreased by \$2,239,395. The decrease in fund balance can be attributed to property tax and investment earnings decreases and a slight increase in expenditures. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 8,817,803	\$ 8,077,298	9.17%
Tuition	358,264	17,177	1985.72%
Earnings on investments	55,329	107,045	(48.31)%
Extracurricular	678	-	100.00%
Intergovernmental	7,701,757	7,990,251	(3.61)%
Other revenues	<u>274,204</u>	<u>297,511</u>	(7.83)%
Total	<u>\$17,208,035</u>	<u>\$16,489,282</u>	4.36%
<u>Expenditures</u>			
Instruction	\$11,493,167	\$11,247,389	2.19%
Support services	7,498,071	7,064,885	6.13%
Extracurricular activities	<u>432,874</u>	<u>431,421</u>	0.34%
Total	<u>\$19,424,112</u>	<u>\$18,743,695</u>	3.63%

Permanent Improvement Fund

The District's permanent improvement fund balance increased by \$1,556,813. The increase in expenditures can be attributed primarily to the purchase of a bus garage. The table that follows assists in illustrating the financial activities and fund balance of the debt service fund.

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$634,736	\$495,474	28.11%
Other local revenues	416	-	100.00%
Intergovernmental	<u>63,672</u>	<u>25,883</u>	146.00%
Total	<u>\$698,824</u>	<u>\$521,357</u>	34.04%
<u>Expenditures</u>			
Instruction	\$175,147	\$ -	100.00%
Support services	135,203	249,131	(45.73)%
Facilities acquisition and construction	<u>414,070</u>	<u>-</u>	100.00%
Total	<u>\$724,420</u>	<u>\$249,131</u>	190.77%

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal 2004, the District amended its general fund budget several times. For the general fund, final budgeted revenues and other financing sources were \$19,089,889, which is higher than the original budgeted revenues estimate of \$17,824,525. Actual revenues and other financing sources for fiscal 2004 was \$18,929,457. This represents a \$160,432 decrease from final budgeted revenues.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

General fund original appropriations (appropriated expenditures plus other financing uses) of \$21,146,178 were decreased to \$21,053,578 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$20,848,297, which was \$205,281 less than the final budget appropriations, due in part to an overall reduction of expenditures in the general fund.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$4,982,302 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to the amounts in 2003:

Capital Assets at June 30 (Net of Depreciation)		
<u>Governmental Activities</u>		
	<u>2004</u>	<u>2003</u>
Land	\$ 609,577	\$ 574,357
Land improvements	277,957	306,884
Building and improvements	3,644,860	3,668,807
Furniture and equipment	236,810	168,199
Vehicles	<u>213,098</u>	<u>189,421</u>
 Total	 <u>\$ 4,982,302</u>	 <u>\$ 4,907,668</u>

Total additions to capital assets for 2004 were \$444,413. The most significant additions were construction of a bus garage. The District recorded \$369,779 in depreciation expense for fiscal 2004.

Debt Administration

At June 30, 2004, the District had \$26,194 in asbestos removal loans outstanding. Of this total, \$13,056 is due within one year and \$13,138 is due within greater than one year. The following table summarizes the bonds and loans outstanding.

Outstanding Debt, at Year End		
	<u>Governmental Activities 2004</u>	<u>Governmental Activities 2003</u>
General obligation bonds:		
Library improvement bonds	\$ -	\$ 55,000
Asbestos removal loan	<u>26,194</u>	<u>30,546</u>
 Total	 <u>\$ 26,194</u>	 <u>\$ 85,546</u>

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The asbestos removal loan was received in prior years. This loan is scheduled to mature in fiscal year 2007 and is interest free as long as the District remains current on repayment. Payment of principal on the asbestos removal loan is being made from the debt service fund.

In 1986, the District issued bonds, providing for facility improvements to the District's public library. The general obligation bonds are scheduled to mature in fiscal year 2004 and bear an interest rate of 8.125%. Payment of principal and interest on the library improvement bonds is being made from the debt service fund.

At June 30, 2004, the District's overall legal debt margin was \$27,742,298 with an unvoted debt margin of \$308,248. The District maintains an A-1 bond rating.

Current Financial Related Activities

As the preceding information shows, the District relies heavily upon grants and entitlements and property taxes. Costs of doing business continue to rise as State funding continues to decrease. The District's general fund cash balance significantly decreased again in the fiscal year ended June 30, 2004. This District, as well as other districts within the state, is in need of additional operating funds and facing future financial challenges.

The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable". On December 11, 2002, the Ohio Supreme Court issued its latest opinion reaffirming earlier decisions that Ohio's current school funding plan is unconstitutional.

At this time the District is unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

Another challenge facing the District is the need to update its facilities to streamline operations and to enhance learning space design for students. The Board has been working with the Ohio School Facilities Commission (OSFC) since 2001 to design a master plan that will serve building needs for the next 50 years. Currently, the Board is considering options to improve and maintain its facilities.

The District has committed itself to continue working toward educational excellence and implementation of a strong internal control system to ensure proper checks and balances and full accountability of taxpayers dollars.

Teachers and administrators are currently working to align our respective courses of study with the Ohio Department of Education's Content Standards. Based on these aligned courses-of-study, the curriculum director has overseen the adoption of textbooks in the various curricular areas starting with social studies in 2004, and will oversee language arts in 2005, mathematics in 2006, and foreign language in 2007. In addition, our high school principal is leading an effort to add academically-rigorous, accelerated courses for our burgeoning gifted population.

All of the District's financial abilities will be called upon to meet the challenges the future will bring. It is imperative the District's Board and management team continue to carefully and prudently plan in order to provide the resources required to meet the student's desired needs over the next several years.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact; Ms. Alice A. Gunning, Treasurer at 1226 East State Street, Salem, Ohio 44460-2299.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2004

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 3,281,267
Receivables:	
Taxes	9,399,025
Accounts	425
Intergovernmental	206,799
Prepayments	48,038
Materials and supplies inventory.	26,420
Capital assets:	
Land	609,577
Depreciable capital assets, net	4,372,725
Total capital assets, net.	<u>4,982,302</u>
 Total assets.	 <u>17,944,276</u>
 Liabilities:	
Accounts payable.	112,497
Accrued wages and benefits	2,191,027
Pension obligation payable.	421,824
Intergovernmental payable	130,973
Deferred revenue	8,877,478
Claims payable	315,563
Long-term liabilities:	
Due within one year.	287,079
Due in more than one year	1,673,486
 Total liabilities	 <u>14,009,927</u>
 Net Assets:	
Invested in capital assets, net of related debt.	4,956,108
Restricted for:	
Capital projects	2,150,116
Other purposes	312,116
Unrestricted (deficit)	<u>(3,483,991)</u>
 Total net assets	 <u>\$ 3,934,349</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental activities:				
Instruction:				
Regular	\$ 9,607,639	\$ 422,650	\$ 338,560	\$ (8,846,429)
Special	2,273,726	-	997,792	(1,275,934)
Vocational	469,149	-	-	(469,149)
Adult/Continuing.	456,890	-	164,314	(292,576)
Other	706,598	291,612	-	(414,986)
Support services:				
Pupil.	982,455	74,000	34,711	(873,744)
Instructional staff	961,653	3,586	36,027	(922,040)
Board of education	35,746	-	-	(35,746)
Administration	2,011,095	3,771	52,176	(1,955,148)
Fiscal.	667,989	-	-	(667,989)
Business.	10,374	-	-	(10,374)
Operations and maintenance	2,209,203	-	5,376	(2,203,827)
Pupil transportation	759,348	-	-	(759,348)
Central	460,375	-	21,838	(438,537)
Operation of non-instructional services	233,485	5,944	95,868	(131,673)
Extracurricular activities.	748,927	177,966	121,057	(449,904)
Food service operations	666,131	282,916	316,735	(66,480)
Interest and fiscal charges	2,234	-	-	(2,234)
Totals	\$ 23,263,017	\$ 1,262,445	\$ 2,184,454	(19,816,118)
 General Revenues:				
Property taxes levied for:				
General purposes				8,426,419
Capital outlay.				610,416
Grants and entitlements not restricted to specific programs				7,683,945
Investment earnings				55,731
Miscellaneous				270,560
Total general revenues				17,047,071
Change in net assets				(2,769,047)
Net assets at beginning of year				6,703,396
Net assets at end of year.				\$ 3,934,349

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 162,779	\$ 2,185,303	\$ 588,395	\$ 2,936,477
Receivables:				
Taxes	8,749,534	649,491	-	9,399,025
Accounts	375	-	50	425
Intergovernmental	-	-	206,799	206,799
Interfund loans	16,630	-	-	16,630
Due from other funds	238,980	-	-	238,980
Prepayments	47,868	-	170	48,038
Materials and supplies inventory	-	-	26,420	26,420
Total assets	<u>\$ 9,216,166</u>	<u>\$ 2,834,794</u>	<u>\$ 821,834</u>	<u>\$ 12,872,794</u>
Liabilities:				
Accounts payable	\$ 29,578	\$ 70,931	\$ 8,686	\$ 109,195
Accrued wages and benefits	2,030,211	-	160,816	2,191,027
Compensated absences payable	158,376	-	5,151	163,527
Pension obligation payable	259,494	-	22,518	282,012
Intergovernmental payable	119,748	-	11,225	130,973
Interfund loan payable	-	-	16,630	16,630
Due to other funds	-	-	238,980	238,980
Deferred revenue	8,634,032	640,630	148,228	9,422,890
Total liabilities	<u>11,231,439</u>	<u>711,561</u>	<u>612,234</u>	<u>12,555,234</u>
Fund Balances:				
Reserved for encumbrances	3,076	-	20,633	23,709
Reserved for underground storage	11,000	-	-	11,000
Reserved for materials and supplies inventory	-	-	26,420	26,420
Reserved for property tax unavailable for appropriation	115,502	8,861	-	124,363
Reserved for prepayments	47,868	-	170	48,038
Unreserved, undesignated, reported in:				
General fund	(2,192,719)	-	-	(2,192,719)
Special revenue funds	-	-	401,357	401,357
Debt service fund	-	-	(238,980)	(238,980)
Capital projects funds	-	2,114,372	-	2,114,372
Total fund balances	<u>(2,015,273)</u>	<u>2,123,233</u>	<u>209,600</u>	<u>317,560</u>
Total liabilities and fund balances	<u>\$ 9,216,166</u>	<u>\$ 2,834,794</u>	<u>\$ 821,834</u>	<u>\$ 12,872,794</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund balances		\$ 317,560
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		4,982,302
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 397,184	
Intergovernmental revenue	148,228	
Total		545,412
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		25,925
Long-term liabilities, including loans payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	1,770,844	
Pension obligation payable	139,812	
Asbestos abatement loan	26,194	
Total		(1,936,850)
Net assets of governmental activities		\$ 3,934,349

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes.	\$ 8,817,803	\$ 634,736	\$ -	\$ 9,452,539
Tuition.	358,264	-	267,466	625,730
Charges for services	-	-	282,916	282,916
Earnings on investments.	55,329	-	402	55,731
Extracurricular.	678	-	248,013	248,691
Classroom materials and fees	-	-	91,572	91,572
Other local revenues.	274,204	416	222,502	497,122
Intergovernmental - State	7,620,273	63,672	304,121	7,988,066
Intergovernmental - Federal.	81,484	-	1,443,925	1,525,409
Total revenues	<u>17,208,035</u>	<u>698,824</u>	<u>2,860,917</u>	<u>20,767,776</u>
Expenditures:				
Current:				
Instruction:				
Regular	8,893,085	172,964	337,330	9,403,379
Special.	1,453,042	2,183	769,653	2,224,878
Vocational.	435,922	-	25	435,947
Adult/Continuing	-	-	454,273	454,273
Other	711,118	-	-	711,118
Support Services:				
Pupil.	842,941	13,466	110,848	967,255
Instructional staff	895,326	-	49,487	944,813
Board of education	33,326	-	-	33,326
Administration.	1,953,030	8,556	45,227	2,006,813
Fiscal	626,713	13,014	23,941	663,668
Business	10,471	-	-	10,471
Operations and maintenance.	1,986,639	45,947	4,705	2,037,291
Pupil transportation	715,004	54,220	154	769,378
Central.	434,621	-	25,754	460,375
Food service operations	-	-	662,065	662,065
Operation of non-instructional services	-	-	232,855	232,855
Extracurricular activities.	432,874	-	288,122	720,996
Facilities acquisition and construction	-	414,070	3,000	417,070
Debt service:				
Principal retirement	-	-	59,352	59,352
Interest and fiscal charges	-	-	2,234	2,234
Total expenditures	<u>19,424,112</u>	<u>724,420</u>	<u>3,069,025</u>	<u>23,217,557</u>
Excess of revenues under expenditures	<u>(2,216,077)</u>	<u>(25,596)</u>	<u>(208,108)</u>	<u>(2,449,781)</u>
Other financing sources (uses):				
Transfers in	1,623,058	1,582,409	63,967	3,269,434
Transfers (out).	(1,646,376)	-	(1,623,058)	(3,269,434)
Total other financing sources (uses)	<u>(23,318)</u>	<u>1,582,409</u>	<u>(1,559,091)</u>	<u>-</u>
Net change in fund balances	(2,239,395)	1,556,813	(1,767,199)	(2,449,781)
Fund balances at beginning of year.	224,122	566,420	1,973,620	2,764,162
Increase in reserve for inventory.	-	-	3,179	3,179
Fund balances (deficits) at end of year.	<u>\$ (2,015,273)</u>	<u>\$ 2,123,233</u>	<u>\$ 209,600</u>	<u>\$ 317,560</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds	\$	(2,449,781)
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$444,413) exceed depreciation expense (\$369,779) in the current period.		
		74,634
 Governmental funds report expenditures for inventory when purchased. However, in the statement of activities they are reported as an expense when consumed.		
		3,179
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
		(273,806)
 Repayment of bond and loan principal are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net assets.		
		59,352
 Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(312,379)
 The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
		129,754
Change in net assets of governmental activities	\$	(2,769,047)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		<u>(Under)</u>
Revenues:				
From local sources:				
Taxes	\$ 8,314,715	\$ 8,839,917	\$ 8,839,917	\$ -
Tuition.	335,813	357,025	358,264	1,239
Earnings on investments.	49,530	52,659	55,813	3,154
Extracurricular.	638	678	678	-
Other local revenues.	256,595	272,803	274,228	1,425
Intergovernmental - State	7,167,532	7,620,272	7,620,272	-
Intergovernmental - Federal.	76,644	81,484	81,484	-
Total revenues	<u>16,201,467</u>	<u>17,224,838</u>	<u>17,230,656</u>	<u>5,818</u>
Expenditures:				
Current:				
Instruction:				
Regular	8,813,951	8,723,951	8,615,069	108,882
Special.	1,482,292	1,482,292	1,442,292	40,000
Vocational.	437,258	437,258	437,258	-
Other	713,106	713,106	713,106	-
Support Services:				
Pupil.	822,638	822,638	822,589	49
Instructional staff	869,218	869,218	869,218	-
Board of education	36,236	36,236	36,236	-
Administration.	1,933,601	1,933,601	1,893,672	39,929
Fiscal	617,292	617,292	617,292	-
Business	33,435	33,435	33,401	34
Operations and maintenance.	2,093,036	2,090,436	2,013,139	77,297
Pupil transportation	676,821	676,821	676,821	-
Central.	436,706	436,706	433,649	3,057
Extracurricular activities.	421,965	421,965	421,965	-
Total expenditures	<u>19,387,555</u>	<u>19,294,955</u>	<u>19,025,707</u>	<u>269,248</u>
Excess of revenues over (under) expenditures.	<u>(3,186,088)</u>	<u>(2,070,117)</u>	<u>(1,795,051)</u>	<u>275,066</u>
Other financing sources (uses):				
Refund of prior year expenditure	-	166,250	-	(166,250)
Refund of prior year (receipt).	(162,617)	(162,617)	(162,617)	-
Transfers in	1,623,058	1,623,058	1,623,058	-
Transfers (out)	(1,582,409)	(1,582,409)	(1,646,376)	(63,967)
Advances in.	-	75,743	75,743	-
Advances (out)	(13,597)	(13,597)	(13,597)	-
Total other financing sources (uses)	<u>(135,565)</u>	<u>106,428</u>	<u>(123,789)</u>	<u>(230,217)</u>
Net change in fund balance	(3,321,653)	(1,963,689)	(1,918,840)	44,849
Fund balance at beginning of year.	2,278,315	2,278,315	2,278,315	-
Prior year encumbrances appropriated	39,083	39,083	39,083	-
Fund balance at end of year.	<u>\$ (1,004,255)</u>	<u>\$ 353,709</u>	<u>\$ 398,558</u>	<u>\$ 44,849</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2004

	Governmental Activities - Internal Service Fund
Assets:	
Equity in pooled cash and cash equivalents	\$ 344,790
Total assets	344,790
Liabilities:	
Accounts payable.	3,302
Claims payable	315,563
Total liabilities	318,865
Net assets:	
Unrestricted.	25,925
Total net assets	\$ 25,925

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Governmental Activities - Internal Service Fund
Operating revenues:	
Sales/charges for services.	\$ 3,376,471
Total operating revenues	<u>3,376,471</u>
Operating expenses:	
Purchased services.	9,479
Claims expense.	3,237,238
Total operating expenses.	<u>3,246,717</u>
Change in net assets	129,754
Net assets (deficit) at beginning of year . .	<u>(103,829)</u>
Net assets at end of year.	<u><u>\$ 25,925</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from sales/charges for services.	\$ 3,376,471
Cash payments for contractual services	(7,603)
Cash payments for claims expenses	(3,294,374)
	74,494
Net cash provided by operating activities	74,494
Net increase in cash and cash equivalents	74,494
Cash and cash equivalents at beginning of year. . .	270,296
Cash and cash equivalents at end of year	\$ 344,790
	344,790
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 129,754
Changes in assets and liabilities:	
Increase in accounts payable	1,876
Decrease in claims payable.	(57,136)
	(55,260)
Net cash provided by operating activities	\$ 74,494
	74,494

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2004

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 32,907
Total assets	32,907
Liabilities:	
Due to students	32,907
Total liabilities	\$ 32,907

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Salem City School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education and is responsible for providing public education to residents of the District.

The District ranks as the 214th largest by total enrollment among the 613 public school districts in the state. It is staffed by 197 certified employees and 77 non-certified employees who provided services to 2,420 students and other community members.

Management believes the financial statements included in this report represent all of the funds of the District over which the District has the ability to exercise direct operating control.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of this criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

JOINTLY GOVERNED ORGANIZATIONS

Area Cooperative Computerized Education Service System (ACCESS)

Area Cooperative Education Service System (ACCESS) is a computer network which provides data services to twenty-three school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these schools supports ACCESS based upon a per pupil charge. ACCESS is governed by an assembly consisting of the superintendents or other designees of the member school districts. The assembly exercises total control over the operation of ACCESS including budgeting, appropriating, contracting and designating management. All of ACCESS revenues are generated from charges for services and State funding. Financial information can be obtained by contacting the Treasurer at the Mahoning County Educational Service Center, who serves as fiscal agent, at 100 DeBartolo Place, Youngstown, Ohio 44512.

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the Plan) was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

Columbiana County School Employees Insurance Consortium

Columbiana County Employees Insurance Consortium (the "Consortium") is a shared risk pool. The consortium provides services to the six member schools including, health, dental, prescription drug and life insurance. The Board of Directors is comprised of the Superintendent from each District. All claims are processed through a third-party administrator, and the fiscal agent and budgeting authority is East Palestine City School District. Financial information can be obtained by writing to the East Palestine City School District, 166 East North Ave, East Palestine, Ohio 44413.

RELATED ORGANIZATION

Salem Public Library

The Salem Public Library (the "Library") is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Salem City School Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the District for operational subsidies. Although the District does not serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Salem Public Library, Mr. George Hays, Clerk/Treasurer, at 821 State Street, Salem, Ohio 44460.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Permanent Improvement Fund - The permanent improvement fund is used to account for accumulation of resources for acquisition, construction or improvement of capital facilities.

Other governmental funds of the District are used to account for (a) financial resources to be used for the repayment of debt (b) food service operations; and (c) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides medical benefits to employees.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no private purpose trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for sales and services. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donation. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, and student fees.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operation, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level for all funds. Any budgetary modifications at these levels may only be made by resolution of the Board of Education.

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with Columbiana County Budget Commission for rate determination.

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered cash balances from the preceding year. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended Certificate issued during the fiscal year.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at any level of control. Any revisions that alter the fund level must be approved by the Board of Education. The District has elected to present budgetary statement comparisons at the fund and function level of expenditures.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent Certificate of Estimated Resources. During the year, all supplemental appropriations were legally enacted.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budget amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2004, investments were limited to overnight repurchase agreements, nonnegotiable certificates of deposits, federal agency securities, and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$55,329, which includes \$37,727 assigned from other District funds.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the Treasurer's investment account at year-end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when received. Inventories are accounted for using the purchase method on the fund statements and using the consumption method on the government-wide statements.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$2,500. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	25 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the statement of net assets.

J. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Loans are recognized as a liability on the fund financial statements when due.

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, debt service, materials and supplies inventory, prepayments, property taxes unavailable for appropriation, and underground storage. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the medical self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

O. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset on the fund financial statements.

P. Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

Q. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in the proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basis financial statements.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2004.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Deficit Fund Balances/Net Assets

Fund balances/net assets at June 30, 2004 included the following individual fund deficits:

	<u>Deficit</u>
<u>Major Governmental Fund</u>	
General	\$ 2,015,273
<u>Nonmajor Governmental Funds</u>	
EMIS	149
Entry Year Program	38
Summer Intervention	4,169
Miscellaneous State Grants	2,553
Title VI-B	25,444
Debt Service	238,980

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the basic financial statements as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts, including passbook accounts.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the finance institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not the exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

Cash on hand: At fiscal year-end, the District had \$6,500 in undeposited cash on hand which is included on the basic financial statements of the District as part of “Equity in Pooled Cash and Cash Equivalents”.

The following information classifies deposits and investments by categories of custodial credit risk as defined in GASB Statement No. 3, “Deposits with Financial Institutions, Investments (Including Repurchase Agreements) and Reserve Repurchase Agreements”.

Deposits: At fiscal year-end, the carrying amount of the District’s deposits was \$287,717 and the bank balance was \$544,849. Of the bank balance:

1. \$100,000 was covered by federal depository insurance or surety company bonds deposited with the District; and
2. \$444,849 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: The District’s investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty’s trust department or agent in the District’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District’s name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	<u>Category 2</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Federal agency securities	\$ 53,139	\$ 53,139	\$ 53,139
Total	<u>\$ 53,139</u>		
Investment in STAR Ohio		<u>2,966,818</u>	<u>2,966,818</u>
Total investments		<u>\$ 3,019,957</u>	<u>\$ 3,019,957</u>

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 3,314,174	\$ -
Investments of the cash management pool:		
Investment in STAR Ohio	(2,966,818)	2,966,818
Federal agency securities	(53,139)	53,139
Cash on hand	<u>(6,500)</u>	<u>-</u>
GASB Statement No. 3	<u>\$ 287,717</u>	<u>\$ 3,019,957</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund balances at June 30, 2004 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 16,630

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the statement of net assets.

- B.** Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:	
General Fund	\$ 63,967
Transfers to General fund from:	
Nonmajor Governmental funds	1,623,058
Transfers to Permanent Improvement fund from:	
General Fund	<u>1,582,409</u>
Total Transfers	<u>\$ 3,269,434</u>

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

C. Due to/from other funds consisted of the following at June 30, 2004, as reported on the fund statement:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Nonmajor governmental fund	\$ 238,980

The purpose of the amount due to the general fund is due to negative cash in the debt service fund. Interfund loans between governmental funds will be eliminated on the government-wide statements.

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes.

Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 6 - PROPERTY TAXES - (Continued)

The District receives property taxes from Columbiana County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004 was \$115,502 in the general fund and \$8,861 in the Permanent Improvement capital projects fund. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2003 was \$137,616 in the general fund, \$6,499 in the debt service fund, and \$10,538 in the Permanent Improvement capital projects fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 210,856,409	72.21	\$ 242,339,770	78.62
Public utility personal	14,968,684	5.13	10,715,510	3.47
Tangible personal property	<u>66,175,733</u>	<u>22.66</u>	<u>55,192,480</u>	<u>17.91</u>
Total	<u>\$ 292,000,826</u>	<u>100.00</u>	<u>\$ 308,247,760</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 48.50		\$ 47.10	

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of Federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities

Property taxes	\$	9,399,025
Accounts		425
Intergovernmental		<u>206,799</u>
Total	\$	<u>9,606,249</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within subsequent years.

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	<u>Balance 06/30/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/04</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 574,357	\$ 35,220	\$ -	\$ 609,577
<i>Capital assets, being depreciated:</i>				
Land improvements	1,017,626	-	-	1,017,626
Building and improvements	12,846,007	232,608	-	13,078,615
Furniture and equipment	975,142	124,085	-	1,099,227
Vehicles	<u>770,758</u>	<u>52,500</u>	-	<u>823,258</u>
Total capital assets, being depreciated	<u>15,609,533</u>	<u>409,193</u>	-	<u>16,018,726</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(710,742)	(28,927)	-	(739,669)
Building and improvements	(9,177,200)	(256,555)	-	(9,433,755)
Furniture and equipment	(806,943)	(55,474)	-	(862,417)
Vehicles	<u>(581,337)</u>	<u>(28,823)</u>	-	<u>(610,160)</u>
Total accumulated depreciation	<u>(11,276,222)</u>	<u>(369,779)</u>	-	<u>(11,646,001)</u>
Governmental activities capital assets, net	<u>\$ 4,907,668</u>	<u>\$ 74,634</u>	<u>\$ -</u>	<u>\$ 4,982,302</u>

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 156,997
Special	13,203
Vocational	13,493
<u>Support Services:</u>	
Pupil	11,965
Instructional staff	15,216
Administration	27,998
Business	896
Operations and maintenance	44,684
Pupil transportation	32,509
Extracurricular activities	38,770
Food service operation	<u>14,048</u>
Total depreciation expense	<u><u>\$ 369,779</u></u>

NOTE 9 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	Interest Rate	Balance Outstanding 06/30/03	Additions	Reductions	Balance Outstanding 06/30/04	Amounts Due in One Year
Governmental Activities:						
<u>General Obligation Bonds:</u>						
Library renewal bonds	8.125%	\$ 55,000	\$ -	\$ (55,000)	\$ -	-
Total general obligation bonds payable		<u>\$ 55,000</u>	<u>\$ -</u>	<u>\$ (55,000)</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Loans Payable:</u>						
Asbestos removal loans	N/A	30,546	-	(4,352)	26,194	13,056
Total loans payable		<u>\$ 30,546</u>	<u>\$ -</u>	<u>\$ (4,352)</u>	<u>\$ 26,194</u>	<u>\$ 13,056</u>
<u>Other Long-Term Obligations:</u>						
Compensated absences		1,708,783	601,225	(375,637)	1,934,371	274,023
Total other long-term obligations		<u>\$ 1,708,783</u>	<u>\$ 601,225</u>	<u>\$ (375,637)</u>	<u>\$ 1,934,371</u>	<u>\$ 274,023</u>
Total governmental activities		<u>\$ 1,794,329</u>	<u>\$ 601,225</u>	<u>\$ (434,989)</u>	<u>\$ 1,960,565</u>	<u>\$ 287,079</u>

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

Library Renewal Bonds: The District issued Library improvement bonds on July 17, 1986, on behalf of the district public library. During fiscal year 2004 these bonds have been retired from the debt service fund.

Asbestos Removal Loan: In prior years, the District received a loan from the U.S. Environmental Protection Agency for asbestos abatement projects. The loan is interest free as long as the District remains current on repayment. The loan is a general obligation of the District, for which the full faith and credit of the District is pledged for repayment. Payments are recorded as expenditures of the debt service fund, from current operating revenue.

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid.

- B.** Principal and interest requirements to retire the long-term obligations outstanding at June 30, 2004, are as follows:

<u>Year Ended</u>	<u>Asbestos Removal Loans</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 13,056	\$ -	\$ 13,056
2006	8,704	-	8,704
2007	4,434	-	4,434
Total	\$ 26,194	\$ -	\$ 26,194

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$27,742,298 and an unvoted debt margin of \$308,248.

NOTE 10 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and state laws. Classified employees earn 10 to 20 days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 270 days for classified employees and unlimited for certified employees. Upon retirement, payment is made for twenty-five percent of accrued, but unused sick leave credit.

B. Life Insurance

The District provides life insurance in the amount of \$50,000 for all regular employees through SAFECO Insurance Company.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the District contracted with Harcum-Hyre Insurance Agency Inc. for liability insurance. Coverage provided by Harcum-Hyre Insurance Agency, Inc. is as follows:

Building and Contents - replacement cost (\$1,000 deductible)	\$50,105,200
Boiler and Machinery (\$1,000 deductible)	22,608,100
Crime Insurance (no deductible)	5,000
Automobile Liability (same as general liability)	
Auto Medical Payments	5,000
Uninsured Motorists (\$100 deductible)	500,000
General Liability	2,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

B. Employee Medical Benefits

The District has elected to provide medical coverage through a self-insurance program. The District uses the general fund to account for and finance its uninsured risks of loss in this program. The claims are serviced through the Columbiana County Schools Employee Insurance Consortium. The Columbiana County Schools Employee Insurance Consortium has stop loss coverage exceeding \$95,000 up to a maximum of \$2,000,000 of expected claims. The claims liability was provided by the third party administrator and is based on the requirements of Governmental Accounting Standards Board, Statement No. 10 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

The claims liability of \$315,563 reported in the fund at June 30, 2004, is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in claims activity for the past two fiscal years are as follows:

	<u>Beginning of Year</u>	<u>Claims</u>	<u>Payments</u>	<u>End of Year</u>
2004	\$ 372,699	\$ 3,237,238	\$ (3,294,374)	\$ 315,563
2003	524,295	3,168,686	(3,320,282)	372,699

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 14. As such, no funding provisions are required by the District.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 11 - RISK MANAGEMENT - (Continued)

C. OSBA Group Workers Compensation Rating Plan

For fiscal year 2004, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the Plan.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$148,164, \$140,358, and \$98,501, respectively; 44% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$82,972 represents the unpaid contribution for fiscal year 2004.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,259,675, \$1,279,811, and \$895,577, respectively; 84% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$210,548 represents the unpaid contribution for fiscal year 2004. Contributions to the DC and Combined Plans for fiscal 2004 were \$232 made by the District and \$14,695 made by plan members.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$96,898 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$368,739,000 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of .92 percent from fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established as \$25,400. For the School District, the amount to fund health care benefits, including surcharge, during the 2004 fiscal year equaled \$142,882.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS had approximately 62,000 participants receiving health care benefits.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ (1,918,840)
Net adjustment for revenue accruals	(22,621)
Net adjustment for expenditure accruals	(401,606)
Net adjustment for other sources/uses	100,471
Adjustment for encumbrances	3,201
GAAP basis	\$ (2,239,395)

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 15 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

C. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...".

The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

NOTE 16 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 2003	\$ (337,592)	\$ (248,851)	\$ 164,450
Current year set-aside requirement	358,956	358,956	-
Qualifying disbursements	<u>(242,922)</u>	<u>(466,094)</u>	<u>(164,450)</u>
Total	<u>\$ (221,558)</u>	<u>\$ (355,989)</u>	<u>\$ -</u>
Balance carried forward to FY 2005	<u>\$ (221,558)</u>	<u>\$ (355,989)</u>	<u>\$ -</u>

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 16 - STATUTORY RESERVES - (Continued)

The District had qualifying disbursements during the year that reduced the set-aside amounts below zero for the capital acquisition and textbooks reserves. These extra amounts may be used to reduce the set-aside requirement for future years. The negative amounts are therefore presented as being carried forward to the next fiscal year.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program		10.550		\$76,786		\$76,786
School Breakfast Program		10.553	\$ 30,362		\$ 30,362	
National School Lunch Program		10.555	198,266		198,266	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>228,628</u>	<u>76,786</u>	<u>228,628</u>	<u>76,786</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)		84.027	48,283		52,200	
	6BSF-2003 P 6BSF-2004		349,195		343,926	
Total Special Education Cluster			<u>397,478</u>		<u>396,126</u>	
Grants to Local Educational Agencies (ESEA Title I)		84.010	0		16,488	
	C1S1-2003 C1S1-2004		508,239		440,639	
Total Grants to Local Educational Agencies (ESEA Title I)			<u>508,239</u>		<u>457,127</u>	
Innovative Educational Program Strategies		84.298	1,555		3,010	
	C2S1-2003 C2S1-2004		14,607		13,498	
Total Innovative Educational Program Strategies			<u>16,162</u>		<u>16,508</u>	
Drug-Free Schools Grant		84.186	3,547		3,173	
	DRS1-2003 DRS1-2004		14,264		11,359	
Total Drug Free Schools Grant			<u>17,811</u>		<u>14,532</u>	
Education Technology State Grants		84.318	1,520		750	
	TJS1-2003 TJS1-2004		12,206		11,275	
Total Education Technology State Grants			<u>13,726</u>		<u>12,025</u>	
Improving Teacher Quality State Grants		84.367	21,562		32,410	
	TRS1-2003 TRS1-2004		100,093		98,460	
Total Improving Teacher Quality State Grants			<u>121,655</u>		<u>130,870</u>	
Eisnehower Professional Development State Grants, Title II, Part B		84.281	0		750	
Total Department of Education			<u>1,075,071</u>		<u>1,027,938</u>	
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program		93.778	81,484		81,484	
<u>FEDERAL EMERGENCY MANAGEMENT AGENCY</u>						
<i>Passed Through Ohio Emergency Management Agency:</i>						
Public Assistance Grants		83.544	2,779		2,602	
Totals			<u>\$1,387,962</u>	<u>\$76,786</u>	<u>\$1,340,652</u>	<u>\$76,786</u>

The accompanying notes to this schedule are an integral part of this schedule.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY
FISCAL YEAR ENDED JUNE 30, 2004**

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the Government's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B—CHILD NUTRITION CLUSTER

Program regulations do not require the Government to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Salem City School District
Columbiana County
1226 East State Street
Salem, OH 44460

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Salem City School District, Columbiana County (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 11, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the District's management in a separate letter dated April 11, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the District's management in a separate letter dated April 11, 2005.

This report is intended solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

April 11, 2005



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Salem City School District
Columbiana County
1226 East State Street
Salem, OH 44460

Compliance

We have audited the compliance of Salem City School District, Columbiana County (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

April 11, 2005

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505**

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Title I (84.010) Title II A – Improving Teacher Quality (84.367)
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY
JUNE 30, 2004**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	ORC 5705.36, did not certify estimated resources to county auditor until November 6, 2002	Yes	



**Auditor of State
Betty Montgomery**

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800-282-0370

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SALEM CITY SCHOOL DISTRICT

COLUMBIANA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 10, 2005**